

May 4, 2020

Will Seuffert  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, Minnesota 55101

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. G002/M-20-323

Dear Mr. Seuffert:

Attached are the response comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of an Updated Natural Gas State Energy Policy (SEP) Rider Rate Factor, and the Annual SEP Compliance Filing.

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve Xcel's proposal with modifications**. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ Samir Ouanes  
Public Utilities Rates Analyst

SO/ar  
Attachment



## Before the Minnesota Public Utilities Commission

### Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G002/M-20-323

#### I. BACKGROUND

On February 28, 2020, Northern States Power Company, doing business as Xcel Energy (Xcel Gas or the Company) filed a *Petition for Approval of an Updated Natural Gas State Energy Policy (SEP) Rider Rate Factor, and Annual SEP Compliance Filing (Petition)* in the present docket to revise the Company's natural gas SEP Rider rates. The Company's proposal would lower the natural gas SEP Rider rate from the 2019 rate of \$0.001173 per therm, which was approved in Docket No. G002/M-19-200, to \$0.000943 per therm.

On March 27, 2020, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments (Comments) concluding that it expects to recommend that the Commission approve the Company's petition with the modification of using a more reasonable sales estimate, particularly since Xcel Gas has often underestimated its sales.

The Department recommended that the Company explain in reply comments the reason(s) for its under-estimation of its proposed sales forecast of 1,011,582,014 in Docket No. G002/M-19-200 and provide its actual (non-normalized) 2019 sales.

Based on the review of Xcel Gas' April 6, 2020 reply comments (Reply Comments), the Department recommends that the Commission adopt the recommendations discussed in greater detail herein and summarized at the end of this document.

#### II. DEPARTMENT ANALYSIS – CORRECTION

In Reply Comments at page 3, Xcel Gas stated:

First a clarifying note: 1,011,582,014 therms was our proposed July 2019 – June 2020 sales forecast used to calculate the proposed 2019 – 2020 SEP Rider rate in Docket No. G002/M-19-200. The final rate approved by the Commission in that docket was calculated using 2018 actual retail sales of 1,109,497,520.

The Department appreciates Xcel Gas' correction of the record in Docket Nos. G002/M-19-200 and 20-323 regarding the 1,011,582,014 therms forecast period. The Department notes that Table 1 and Table 2 of the Department's May 1, 2019 comments and Table 1 of the Department's May 9, 2019 Supplemental Comments in Docket No. G002/M-19-200 should have referenced the 1,011,582,014 therms forecast period as July 1, 2019-June 30, 2020 (2019-2020), instead of July 1, 2018-June 30, 2019 (2018-2019).

The Department also notes that Table 1 of the Department's March 27, 2020 in Docket No. G002/M-20-323 should have similarly referenced the 992,590,020 therms forecast period as July 1, 2020-June 30, 2021, instead of July 1, 2019-June 30, 2020.

The Department apologizes for any inconvenience this mislabeling may have caused.

### **III. DEPARTMENT ANALYSIS – USE OF ACTUAL 2019 SALES**

In our Comments at page 5, the Department recommended that Xcel Gas explain in reply comments the reason(s) for its under-estimation of its sales forecast of 1,011,582,014 and provide actual, non-normalized 2019 sales.

In Reply Comments at pages 2-4, Xcel Gas stated:

There are two primary factors contributing to the difference between the sales forecast of 1,011,582,014 therms and actual 2019 sales of 1,310,860,707 therms. The weather in 2019 was colder than normal and Interdepartmental Transportation sales, which is gas used for electric generation, were higher than forecast.

...

The Company continues to believe our sales forecasting methodology is appropriate for rate-setting, and we continue to support the use of forecasted sales as the best opportunity for matching costs and revenues for the following reasons:

- The Company's forecast is based on sound statistical methodologies that are used throughout the utility industry and incorporates reasonable assumptions. The forecast reasonably assumes normal weather during the forecast period, and, therefore, variances will exist when the weather-normal forecasted sales are compared to non-weather normalized actual sales.
- The forecast of generation gas use is based on the same underlying electric sales forecast that is used for rate case and fuel reform filings. It uses the PLEXOS software and model which is used for the fuel filings under the new fuel reform process.<sup>[1]</sup> PLEXOS is a widely used and industry accepted model for forecasting generation.
- A forecast of generation gas use is superior to using historical data because it can capture changes in the system resource mix that can materially impact gas generation. For example, the large additions of renewable energy the Company is adding in 2020-2021 will likely impact gas generation. This will not be reflected in historical data and can only be captured by using a forecast model. The same applies to electric load. We are currently seeing large reductions in

electric load due to the pandemic, which is impacting gas generation. It likely will not make sense next year to use this historical period to forecast on-going gas use for generation after the pandemic ends. Furthermore, use of historic generation neglects changes in natural gas prices which can significantly impact future gas expectations. The PLEXOS model uses natural gas futures prices which are the best indicator of what the price of natural gas will be for the recovery period.

The Department appreciates Xcel Gas' explanation and agrees with the Company that "[a] forecast of generation gas use" may be "superior to using historical data because it can capture changes in the system resource mix that can materially impact gas generation." However, as noted in the Comments, Xcel Gas has often underestimated its sales; to avoid charging rates that are too high, the Commission required Xcel to use historical actual sales to set rates in recent SEP proceedings. Similarly, historical actual sales should be used in this proceeding. The Department notes that its recommendation is based on facts to date, and may change in future proceedings if Xcel Gas forecasts become superior to the use of historical data.

Using 2019 actual retail therm sales of 1,310,860,707<sup>1</sup> results in an SEP factor of \$0.000714 per therm,<sup>2</sup> as opposed to the originally proposed \$0.000943 per therm in the Company's initial Petition. This difference represents a 24.3 percent reduction from the Company's proposed SEP factor, and a 39.2 percent reduction from the current factor of \$0.001173 per therm.

The Department recommends that the Commission require Xcel to use the higher 2019 actual sales figure to set an SEP Rider factor of \$0.000714 per therm.

#### **IV. DEPARTMENT RECOMMENDATIONS**

The Department recommends that the Commission:

1. Accept Xcel's Petition as a compliance filing;
2. Approve an SEP rate factor of \$0.000714 per therm, based on 2019 actual retail sales of 1,310,860,707, to be effective on July 1, 2020; and
3. Require Xcel to file a compliance filing that includes its revised SEP rider tariff language.

/ar

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<sup>1</sup> Source: Reply Comments at 2.

<sup>2</sup>  $\$935,613/1,310,860,707$  therms =  $\$0.000714/\text{therm}$ .

## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce  
Response Comments**

**Docket No. G002/M-20-323**

Dated this **4<sup>th</sup>** day of **May 2020**

**/s/Sharon Ferguson**

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